




Good things take time.

Fiscal Year 2018

MOSERS Summary Annual Report to Members



“In reflecting on the year that was FY18 and all its activities here at MOSERS, we continue to be reminded that it is the long-term security of the benefits we administer that is most important.”

Good things take time.

Message from the Executive Director

It is my pleasure to present MOSERS' *Summary Annual Report to Members*, which provides a brief overview of our financial condition as of June 30, 2018. During fiscal year 2018 (FY18), the board and staff worked extensively and collaboratively on solutions to ensure the fiscal sustainability of MOSERS for current and future members. I would like to thank our trustees for their dedication and commitment. I am honored to have been chosen as your executive director this year and look forward to serving our members in the same tradition of excellence that is the hallmark of MOSERS.

During FY18, the board authorized an economic assumption and actuarial methods review to be performed by its external actuaries, Cavanaugh Macdonald Consulting, LLC. After considerable deliberation, the board adopted multiple changes based upon the results and recommendations of this study. The assumption change with the most substantial financial impact to the plans was the approval of the reduction of the assumed rate of return on investments from 7.5% to 7.25%, effective June 30, 2018. The board expressed the intention of further reducing the rate to 7.10%, effective June 30, 2019, and to 6.95%, effective June 30, 2020.

To allow for more predictable and stable contribution rates, MOSERS' funding is based upon the actuarial value of assets which smooths asset gains and losses over a five-year period. As of June 30, 2018, the MSEP was 64.9% pre-funded and the Judicial Plan was 27.3% pre-funded on an actuarial basis.

The General Assembly authorized and the Governor approved the appropriation of \$413 million to MOSERS for FY19, which will fully fund the board certified employer contribution rate.

In reflecting on the year that was FY18 and all its activities here at MOSERS, we continue to be reminded that it is the long-term security of the benefits we administer that is most important. Those things that are of the highest quality and of the most value require a commitment of time, skill, hard work, sacrifice, and dedication to produce. Built well and properly maintained, they endure for generations. We know our members rely on their benefits now and far into the future. The decisions and initiatives completed by the board and our staff this year all work together to foster the long-term sustainability of the system. As we move into FY19, we, the staff of MOSERS, will continue to “roll up our sleeves” and work hard for our members, the board, and all our stakeholders. It is our honor to work for this great state and its citizens.

Respectfully submitted,



Ronda Stegmann
Executive Director



Ronda Stegmann
Executive Director

This *Summary Annual Report* is derived from the information contained in MOSERS' *Comprehensive Annual Financial Report* (CAFR) but does not include all funds administered by MOSERS or certain other information required for conformity with Generally Accepted Accounting Principles (GAAP). MOSERS' financial statements are produced in conformity with GAAP. Contact MOSERS to request a copy of the CAFR, or explore it on our website at www.mosers.org. To request an alternative format, please contact MOSERS at (573) 632-6100 or (800) 827-1063. MOSERS is an equal opportunity employer.

Message From the Board Chairwoman

On behalf of the board of trustees, I am pleased to present the MOSERS' *Summary Annual Report* to members for the fiscal year ended June 30, 2018. Much like the stately tree illustrated on this year's report cover, MOSERS has grown over the past 61 years in its commitment to provide greater financial security to you for your service to the state of Missouri and its citizens.

During FY18, the MOSERS Board of Trustees continued its ongoing commitment to security and stability by establishing three committees, comprised of three to five board members, to delve into MOSERS-specific topics. Committee members gained a stronger understanding of the important areas of:

- investments;
- strategic planning and governance; and
- procurement of the new pension administration system.

Committee members dedicated additional time and expertise, which resulted in robust analysis benefiting the board as a whole and our stakeholders.

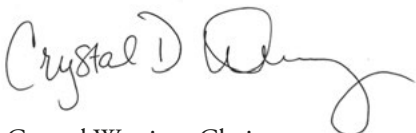
During FY18, board and staff members implemented several initiatives including:

- developing a new asset allocation for the \$8 billion MOSERS trust fund;
- embarking on re-writing the board's governance policies in FY19;
- engaging in a comprehensive environmental scan and analysis of our strengths, weaknesses, opportunities, and threats in preparation for a renewed strategic planning effort; and
- modifying the system's funding policy, after considerable deliberation, to lower MOSERS' investment return assumption. The new assumptions more accurately reflect capital market expectations. While this decision will result in higher annual employer contribution requirements in the short-term, we believe this prudent action will strengthen the financial position of the system and enhance the retirement security of our members over the long-term.

On behalf of the board and staff, I would like to recognize Mr. Joe Carmichael, Ms. Shannon Owens, Mr. Antwaun Smith, Representative Justin Alferman, and Representative Mike Bernskoetter for their hard work and dedication while serving as trustees. Four new trustees were named to the board during FY18 including Ms. Jenny Jacobs, Mr. Joe Keifer, Mr. Gary Metzger, and Representative Scott Fitzpatrick. Trustees devote many hours in fulfilling their fiduciary duties. Our newer trustees have already made substantial contributions of time and service to board discussion and decisions.

As we look forward to another fiscal year and the opportunities it will provide, I wish to thank the MOSERS staff for their dedication and professionalism. I also wish to express my appreciation to you, our members, for your commitment and service to this great state and its citizens. As a fellow state employee, I know many of the challenges you face and I am honored to serve as one of your representatives on the MOSERS board. If you ever have any questions, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102, call us at (800) 827-1063, or visit our website at www.mosers.org.

Sincerely,



Crystal Wessing, Chairwoman
Board of Trustees



Crystal Wessing
Board Chairwoman

"Much like the stately tree illustrated on this year's report cover, MOSERS has grown over the past 61 years in its commitment to provide greater financial security to you for your service to the state of Missouri and its citizens."

MISSION

MOSERS exists to advance the financial security of its members.

VISION

We endeavor to:

Exceed customer expectations

Educate stakeholders

Ensure sound investment practices

Encourage responsible
funding of the plan

through a commitment to

Excellence. Always.

VALUES

Quality • Respect • Integrity
Openness • Accountability



Financial Highlights

Fiscal Year 2018

\$589.6 Million
Investment Income

\$416.5 Million
Employer Contributions

\$29.2 Million
Employee Contributions

\$853.8 Million
Pension Benefits Paid

\$1,148
Average Monthly Benefit Amount
for FY18 MSEP Retirees

48,776
Retirees & Beneficiaries

\$8.2 Billion
Net Trust Fund Assets

Voluntary Buyout Program

The voluntary Buyout Program, authorized by state law, was offered by the MOSERS Board of Trustees to eligible vested former state employees of the system in an effort to reduce MOSERS pension liability. Members who chose to accept this offer, received a lump-sum payment equal to 60% of the present value of their future retirement benefit — closing their eligibility for future retirement payments.

After initially offering the program with an application window from October 1 through November 30, 2017, the board also offered the “Second Chance Buyout Program” with an application window during May 2018.



17,005
Eligible Vested
Former State Employees



4,371 (25.7%)
Eligible Members Elected Buyout



\$41 Million
Net Liability Eliminated

Net Position

The *Summary Statement of Fiduciary Net Position* reports the pension plan's financial position as of the end of the fiscal year. As of June 30, 2018, MOSERS has accumulated \$8.2 billion in net assets for the payment of promised retirement benefits.

Summary Statement of Fiduciary Net Position (Fiscal Year Ended June 30, 2018)

Assets	
Cash and short-term investments	\$ 3,532,158,169
Receivables	152,195,889
Investments	8,535,881,439
Net capital assets	3,237,785
Other assets	44,847
Total assets	<u>12,223,578,129</u>
Deferred outflow of resources	301,182
Liabilities	
Administrative expense payables	2,320,559
Investment purchase payables	162,762,193
Other liabilities	8,700,871
Obligations under repurchase agreements	3,853,968,794
MOSERS investment portfolio liability (MIP)	4,014,950
Net OPEB liability	7,272,038
Total liabilities	<u>4,039,039,405</u>
Deferred inflow of resources	<u>71,907</u>
Net positions restricted for pensions	<u>\$ 8,184,707,999</u>

The *Summary Statement of Changes in Fiduciary Net Position* reports the system's additions (income), deductions (expenses), and net increase of net position. Simply put, MOSERS increased the amount of money in the fund by \$108.5 million during FY18.

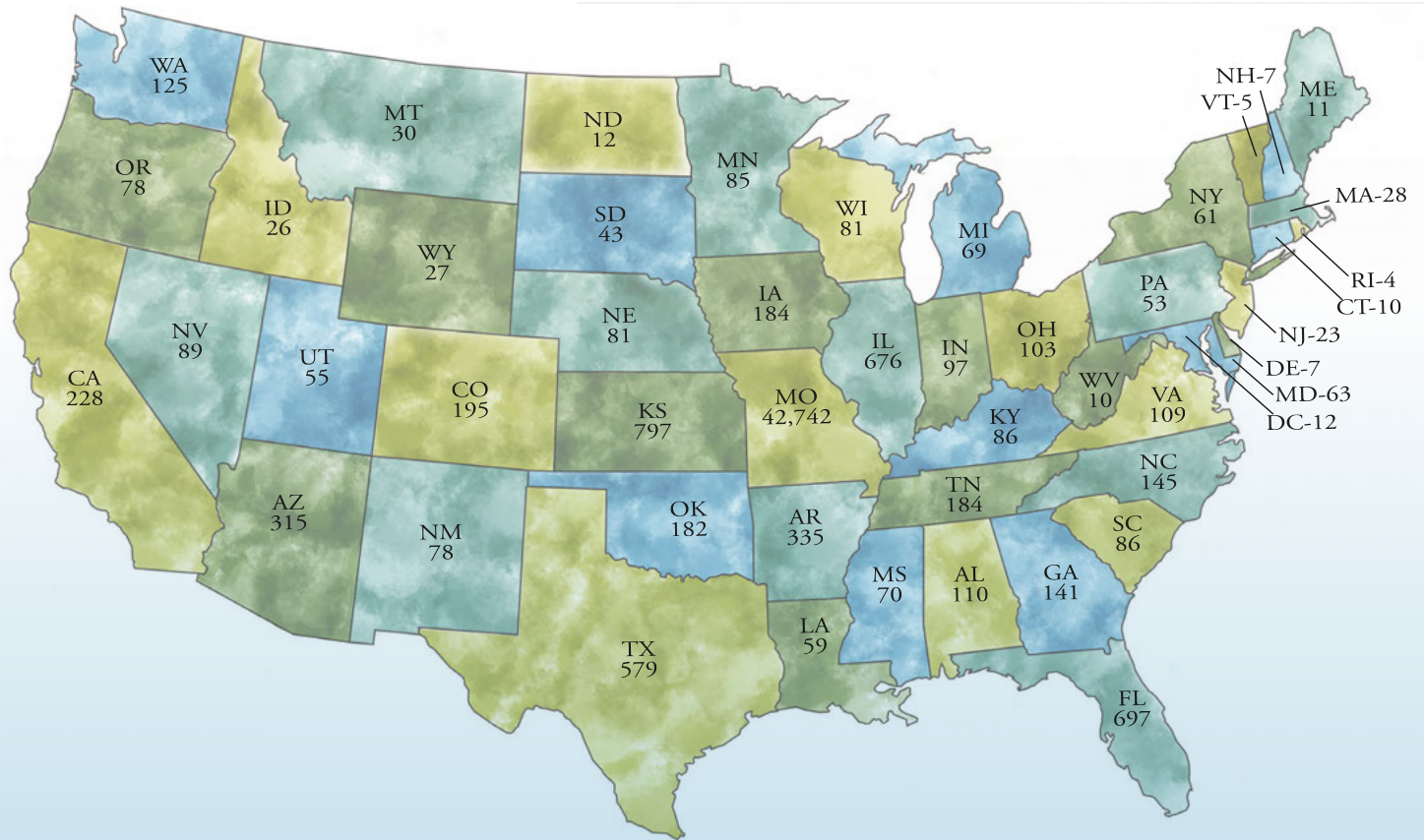
Summary Statement of Changes in Fiduciary Net Position (Fiscal Year Ended June 30, 2018)

Additions	
Contributions (employer and employee)	\$ 450,974,449
Investment income (investing activities)	589,611,104
Miscellaneous income	548,581
Total additions	<u>1,041,134,134</u>
Deductions	
Benefits	853,758,969
Service transfers and refunds	68,609,753
Administrative expenses	10,209,941
Total deductions	<u>932,578,663</u>
Net increase	108,555,471
Net position beginning of year	<u>8,076,152,528</u>
Net positions restricted for pensions	<u>\$ 8,184,707,999</u>

Membership

Benefit Recipients by Location

Our neighbors, friends, and family spend their pension benefits in our communities. Nearly 90% of retirees and their dependents remain in Missouri, spending retirement dollars on housing, goods, and services.



16 Alaska	1 Costa Rica	1 India	1 Philippines
7 Hawaii	1 Croatia	2 Ireland	1 Sri Lanka
1 Army Post Office	1 Czech Republic	2 Israel	1 Sweden
1 Argentina	1 Ecuador	2 Italy	1 Thailand
2 Australia	1 Germany	1 Latvia	1 The Netherlands
1 Brazil	1 Guam	1 Marshall Islands	3 United Kingdom
12 Canada	1 Hong Kong	2 P. R. China	2 Virgin Islands

Member Data

Members Retired During FY18

June 30, 2018	MSEP*	Judicial Plan**
Active Members		
Average age	45.4	56.4
Average years of service	10.9	11.5
Average annual salary	\$40,061	\$143,498
Retired Members & Beneficiaries		
Average age	70.3	76.5
Average annual benefit	\$15,452	\$63,862
Total Membership		
Active	47,806	415
Retired/Beneficiaries	48,207	569
Inactive-vested/other	16,386	26

* Includes MSEP, MSEP 2011, and MSEP 2000 members.
 ** Includes Judicial Plan and Judicial Plan 2011 members.

Years Credited Service	Average Monthly Benefit	Average Final Average Salary	Number of Retirees
<5	\$ 402	\$5,977	7
5-10	338	2,815	523
11-15	584	2,899	475
16-20	922	3,323	486
21-25	1,420	3,802	520
26-30	1,887	4,096	515
31+	2,511	4,538	208
All Members*	1,148	3,488	2,734

* Includes MSEP, MSEP 2011, and MSEP 2000 members, but does not include Judicial Plan and Judicial Plan 2011 members.

Investments

For the past two years, we have focused on achieving excess returns and reducing management fees. In FY18 we continued to achieve those goals.

The MOSERS portfolio generated a time-weighted rate of return, based on market value, of 7.4% for FY18. This was 2.6% better than the policy expectation of 4.8%. Additionally, we reduced our management fees by \$9 million.

So, FY18 was a good year. We earned more money than the asset allocation suggested possible at lower fees than the year before. In total, those efforts created about \$260 million more than would have been expected by the asset allocation alone.

The negative for the year was simple – equity markets continued to perform well, which means diversification did not work in our favor this year. This year, more equities meant more return. However, the key to successful long-term portfolios is to diversify. Diversification simply is putting eggs into several baskets. While this year's results would have been better if we had put all of our eggs in the equity basket, that won't be the outcome in every year. We continue to remain confident that diversification will win in the long term.

As we plan for the future, our focus is on:

- Building a portfolio that better serves the needs of all of our stakeholders
- Continuing to reduce investment management fees
- Continuing to lead the industry in fee transparency

As always, we are here for the benefit of our members and, in all ways, our efforts will continue to focus on strengthening MOSERS' already strong financial foundation.

Sincerely,

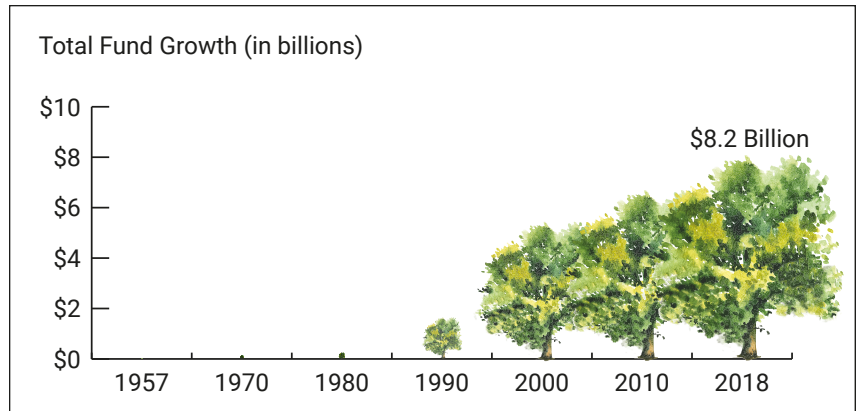


Seth Kelly
Chief Investment Officer



Investment Growth

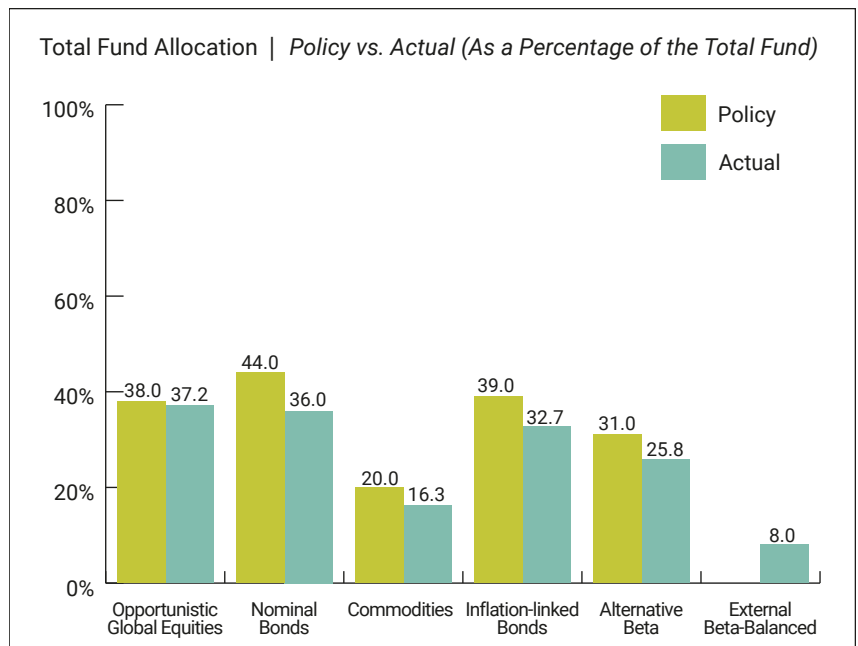
It takes a long time to grow defined benefit pension assets. MOSERS' first investment transaction occurred in 1957, when a single outside advisor placed \$100,000 in a 90-day Treasury Bill on behalf of participants. It took nearly 30 years for the system's investments to reach the \$1 billion mark. Continuing to grow, the investment portfolio, as of June 30, 2018, was \$8.2 billion in net assets.



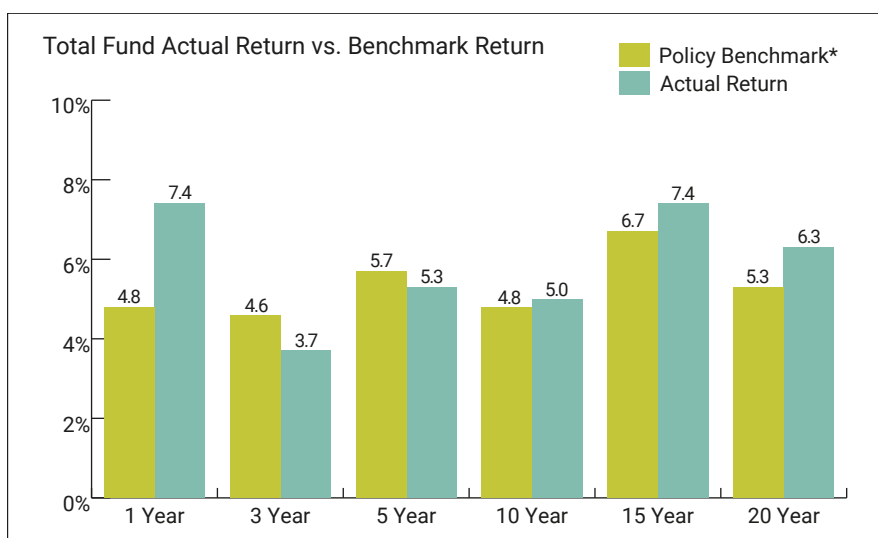
Recent action by the MOSERS Board to reduce the assumed rate of return on investments has caused the employer contribution rate to increase in the short term but will work to ensure MOSERS' sustainability over the long term.

Fund Allocation & Risk

Market volatility is what investors traditionally consider to be the risk of investing. To protect against this risk, the MOSERS investment portfolio is diversified across numerous asset classes and investment strategies to mitigate the potential impact of negative economic circumstances. The graph below reflects the percentage of the total investment portfolio by specific asset class, as of June 30, 2018. This asset allocation is built on the belief that diversification is critical in achieving consistent, long-term risk-adjusted investment returns. The policy allocation is set by the MOSERS board and invested by staff.



The policy benchmark provides a point of comparison when assessing the investment performance of the total fund. By comparing the policy benchmark return to the fund total return we can determine how the MOSERS investment team performed on a comparative basis over a given time period. Value is added when the total fund return exceeds the policy benchmark. The policy benchmark also provides guidance for staff as well as other stakeholders of the fund through establishment of concrete investment goals. Additionally, the policy benchmark also establishes the board's long-term view regarding investments, which puts into perspective any reaction, or over-reaction, to short-term market conditions.

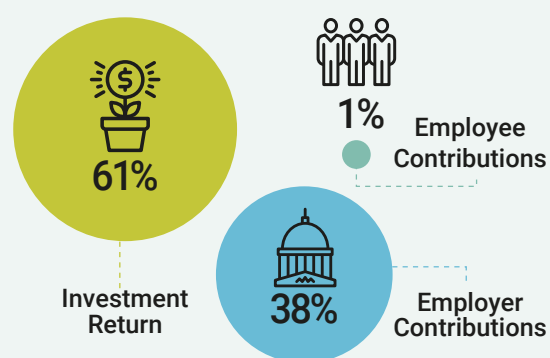


* As of June 30, 2018, the total fund policy benchmark was comprised of the following components: 38% MSCI ACWI Net + .75%, 44% Barclays Long Treasuries, 20% S&P GSCI/BCOM, 39% Barclays U.S. TIPS 1-10 YR, and 31% AQR Delta. All policy return components are adjusted for financing cost associated with the beta-balanced program.

Retirement Funding

Plan Revenue

MOSERS is an advance-funded retirement system. Unlike “pay-as-you-go” plans, employers and employee contributions plus investment earnings are accumulated and professionally managed during employees’ careers and paid out over their retirement years. Over the long-term, the major source of revenue is from investment earnings, which accounts for 61% of the assets in the MOSERS Trust Fund.

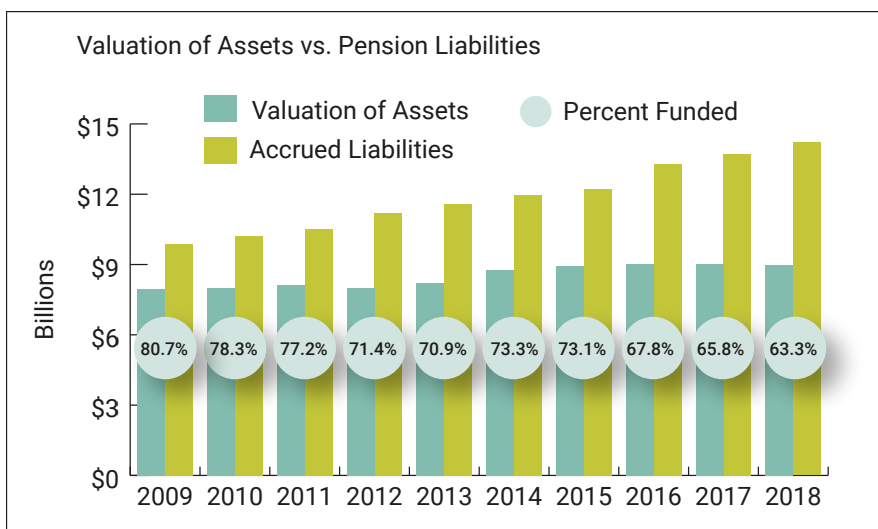


Funded Status

In order to ensure your benefits are available to you, MOSERS contracts with an outside actuarial firm to perform an annual valuation which determines the funded status of the plans at year end and the contribution rates needed to adequately fund the system in the future. The percentages shown in the bar chart indicate the extent to which the system was funded as of a given year.

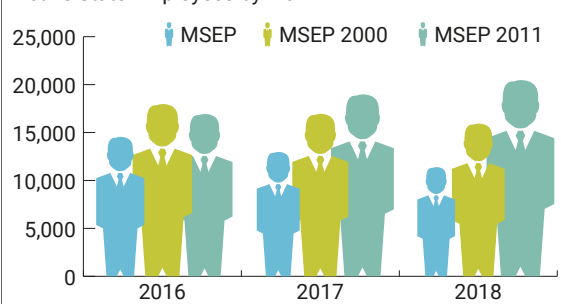
The state contributes the actuarially determined contribution that, when combined with present assets and future investment returns, will be sufficient to meet the present and future assumed financial obligations of the retirement system.

Through a history of reasonable benefit levels, mandatory participation, actuarially determined employer contributions, and professionally managed investments, MOSERS benefits continue to be secure.



Reform in 2010, known as MSEP 2011, stabilizes plan funding, retains the defined benefit (DB) culture, and provides sustainability for future generations. As of June 30, 2018, 43% of active employees are in the MSEP 2011.

Active State Employees by Plan



Board of Trustees

- Crystal Wessing – Chairwoman
- Gary Metzger – Vice Chair
- Representative Scott Fitzpatrick
- Jenny Jacobs
- Joe Keifer
- Don Martin
- Treasurer Eric Schmitt
- Commissioner Sarah Steelman
- Senator Wayne Wallingford
- Senator Gina Walsh
- Representative John Wiemann

Board Election Results

In August 2018, active and vested former state employees re-elected to the board of trustees, Crystal Wessing and Jenny Jacobs. Retired members elected Gary Findlay.

Newly elected board members will serve a four-year term beginning January 1, 2019, and ending December 31, 2022.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its summary annual report for the fiscal year ended June 30, 2017.

This prestigious national award recognizes popular reports for creativity, presentation, understandability, and reader appeal and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to the GFOA for evaluation.

MOSERS also received two awards from the National Association of Government Communicators (NAGC) including a first place award for our Benefits U Human Resources Conference materials and an Award of Excellence for our Member Login Video Tutorial.



Want to Know More?



Visit us online at www.mosers.org
or email us at mosers@mosers.org



In an effort to provide information more quickly about actions taken by the MOSERS Board of Trustees, look for "A Moment with MOSERS" video updates in your email or online.



Benefit counselors are a valuable source for information regarding your benefits. Call to speak with a benefit counselor by phone or make an appointment to visit our office.

Office Hours

Monday - Friday
8:00 a.m. - 12:00 p.m.
1:00 p.m. - 4:30 p.m.

Phone

(573) 632-6100 • (800) 827-1063

MO Relay

711 (voice) • (800) 735-2966 (TTY)

Mailing Address

PO Box 209
Jefferson City, MO 65102-0209

Visit us at 907 Wildwood Drive

